Summary of Commentary on __________________

Current Economic Conditions

By Federal Reserve District

August 2012
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Summary*

Reports from the twelve Federal Reserve Districts suggest economic activity continued to expand gradually in July and early August across most regions and sectors. Six Districts indicated the local economy continued to expand at a modest pace and another three cited moderate growth; among the latter, Chicago noted that the pace of growth had slowed from the prior period. The Philadelphia and Richmond Districts reported slow growth in most sectors and declines in manufacturing, while Boston cited mixed reports from business contacts and some slowdown since the previous report.

Most Districts indicated that retail activity, including auto sales, had increased since the last Beige Book report, although Cleveland, Chicago, St. Louis, Dallas, and San Francisco noted the retail improvements were small. Atlanta said that retail growth had slowed, while Philadelphia indicated growth in retail sales was somewhat faster than in the previous report. Boston, New York, Richmond, Atlanta, Minneapolis, and San Francisco recorded strong performance in tourism. Many Districts reported some softening in manufacturing, either a slowdown in the rate of growth or a decline in the level of sales, output, or orders; among those with declining shipments and orders, Philadelphia noted that the rate of decline was tempering.

Districts mentioning nonfinancial services noted increased activity, although at a slowing pace in Boston, softening in New York, and “flattening” in Philadelphia; Kansas City reported that sales of high-tech services declined slightly. Several Districts cited declining demand for staffing services. According to District reports, bankers in New York, Philadelphia, Cleveland, Atlanta, Chicago, and Kansas City saw increases in demand for most loan types in recent months; by contrast, St. Louis, Dallas, and San Francisco indicated that loan demand was mixed, softening, or slightly weaker.

Real estate markets were generally said to be improving. On the residential side, all 12 Districts cited increases in home sales, home prices, or housing construction. Reports on commercial real estate

* Prepared at the Federal Reserve Bank of Boston and based on information collected on or before August 20, 2012. This document summarizes comments received from business and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
markets were also generally positive, although San Francisco noted stable demand, Boston indicated conditions were not much changed since the last report, and Richmond, Chicago, and St. Louis said commercial real estate conditions were mixed.

District reports indicated that energy and mining activity was generally high and increasing. However, Cleveland noted softening demand for coal, while Minneapolis and Kansas City had some energy sectors up and some down. The Midwest drought has reduced actual and expected farm output, especially cotton, soybean, and/or corn crops in the Chicago, Kansas City, and St. Louis Districts.

Most Districts reported that the selling prices of manufacturing and retail products were largely stable. By exception, several Districts noted concerns about rising agricultural commodity prices, and Richmond mentioned a small uptick in retail prices. Hiring was said to be modest across the Districts, and wage pressures were characterized as contained.

**Consumer Spending and Tourism**

Most Districts reported that retail spending in July and early August was up compared with the previous Beige Book. New York and San Francisco noted strengthening sales compared with a softer May and June, although in San Francisco’s case, the rise was only “a bit further.” Philadelphia, Richmond, Minneapolis, and Kansas City reported stronger retail sales, while Cleveland, Chicago, St. Louis, and Dallas all said that sales were up “slightly.” In the Atlanta District, most retail contacts reported slower sales, while Boston’s retail contacts provided a mixed assessment. The Atlanta and San Francisco reports noted that discount retailers performed better than traditional department stores, while the Chicago report attributed the pace of growth in consumer spending to heavy discounting by retailers clearing space for back-to-school items. Boston and Chicago reported continuing weakness in furniture sales; Boston also reported weak sales of electronics, but Chicago noted some improvement in this category. Adult clothing sold well in Boston, Chicago, and Dallas. The Atlanta District said that luxury goods merchants, while still largely positive, provided more mixed reports compared with earlier this year; Kansas City cited weaker sales for high-end jewelry. For the remainder of 2012, Boston retailers have mixed sales expectations, Philadelphia retailers are cautiously optimistic, and those in Atlanta are
conservative; retail contacts in Minneapolis, Kansas City, and Dallas expect sales to rise through the end of the year.

Automobile sales are up in the New York, Philadelphia, Atlanta, St. Louis, Minneapolis, and Kansas City Districts, flat in Cleveland, Chicago, and Dallas, and a bit slower paced in Richmond and San Francisco; nonetheless, vehicle demand in the latter two Districts is still strong, especially for used cars. The New York District reported that new car sales are “particularly robust” and Kansas City cited a sharp increase in new vehicle sales. Atlanta, St. Louis, and Kansas City indicated that car dealers in their Districts expected these strong automobile sales to continue, while the Philadelphia and Dallas Districts reported concerns that consumer uncertainty might depress vehicle sales in coming months.

Respondents in the Boston, New York, Richmond, Atlanta, Minneapolis, and San Francisco Districts reported that tourist industry performance remains strong. The Atlanta District mentioned that Florida contacts reported a drop in European travelers, but said this decline was offset by an increase in business from Central and South America. Contacts in Boston noted some concern that weakness in Europe could soften tourist activity and that rising gas prices could affect leisure travel. The San Francisco District reported that the pace of growth had slowed in Las Vegas and other areas.

**Manufacturing and Related Services**

The picture in manufacturing was mixed. The Boston, Chicago, Kansas City and San Francisco Districts reported increasing demand and sales since the previous Beige Book, although the improvement was generally small and uneven, with two of these four Districts reporting that demand growth, while positive, was slowing. Six Districts reported that demand for manufactured goods was actually falling, although none reported a dramatic fall. The outlook was somewhat more positive, with six Districts reporting that manufacturers expected increasing demand and only two reporting the opposite.

Areas of strength were varied. The Cleveland and Philadelphia Districts both pointed to the revolution in natural gas production in the United States as a driver of demand, but the Chicago District said that a contact blamed cheap natural gas for weakness in demand for coal. Several Districts noted that improvements in residential construction boosted demand for products such as lumber, PVC, cement, and
home goods. The Chicago and Philadelphia Districts said that auto production was positive, but Richmond said the opposite.

Weakness overseas remains a problem for U.S. manufacturing. Reports from the Boston, Atlanta, and Chicago Districts explicitly mentioned it. Although Europe represented one notable problem, several Districts also mentioned weakness in demand in Asia as an issue. In general, District reports indicate that the cost and availability of raw materials has not been an issue for manufacturers recently, especially as compared with the situation in previous years. Four Districts reported lower input costs, but contacts in New York reported a slight increase.

On the employment front, there was little movement. Across all Districts, few manufacturing firms reported any major hiring or layoffs, and the ones that did usually attributed it to idiosyncratic factors like new products or restructuring related to a merger. The Cleveland District reported that firms continued to have trouble finding skilled workers. Capital spending also showed little change; in addition, several Districts reported that contacted manufacturers had not revised their investment plans.

Nonfinancial Services

Activity in nonfinancial services generally picked up since the previous report, although results were mixed across Districts and service industries. New York and Philadelphia reported that overall service-sector activity was flat to down slightly, whereas Minneapolis and San Francisco noted expanding activity. Several Districts, including Boston, Richmond, and San Francisco, reported steady to increasing demand for information technology services; Kansas City, by contrast, cited decreased sales at high-tech services firms. Reports from the healthcare sector were also somewhat mixed, with Philadelphia and St. Louis reporting positive results and San Francisco noting a drop in the frequency of elective procedures. Advertisers in the Philadelphia and San Francisco Districts continued to report strong revenues. In the Dallas District, legal firms reported continued increases in demand for services, while accounting firms cited seasonal slowness. Demand for staffing services was generally lower than expected, with decreases reported by Boston, New York, Richmond, and Dallas. Even so, demand remained strong for highly skilled IT personnel in the Boston and Richmond Districts.
Reports on transportation services were generally positive. Rail contacts reported continued increases in intermodal shipments in the Atlanta District and increased cargo volumes in the Dallas District, with both Districts recognizing gains in lumber shipments. Atlanta and Dallas also reported steady to increasing demand for trucking services, whereas logistics firms and carriers in the Philadelphia District reported a relatively sluggish start to the traditional “freight season.”

**Banking and Financial Services**

Credit conditions have improved over the reporting period according to District reports. Credit spreads were lower and competition for high-quality borrowers among lending institutions has increased. The New York District noted that shrinking spreads were observed particularly in commercial and industrial loans as well as in commercial mortgages. Some bankers in the Cleveland District mentioned a moderate loosening of lending guidelines. The New York, St. Louis, and Kansas City Districts reported unchanged credit standards; New York and Cleveland cited declining delinquency rates.

The direction and magnitude of changes in loan demand varied among the Districts and also with respect to type of loan. The Richmond and Atlanta Districts reported generally low demand for loans, but some pockets of growth. The Chicago District noted that growth in business loan demand was generated mostly from small and mid-size firms and for the purpose of refinancing rather than financing capital expenditures. Cleveland, St. Louis, and San Francisco mentioned small positive or negative changes in business credit demand, and relatively strong demand for consumer credit. The Kansas City District reported stable demand for commercial and industrial loans and commercial real estate loans, while Dallas noted softer demand for loans overall; however, both Districts cited increases in demand for residential real estate loans. The New York and Philadelphia Districts observed growth in most lending categories.

**Real Estate and Construction**

Housing markets across most Districts exhibited signs of improvement, with sales and construction continuing to increase. Dallas reported significant levels of buyer traffic, Richmond noted strong pending sales, and Minneapolis and St. Louis mentioned increases in building permits. New York,
Philadelphia, and Chicago indicated improvements as well, but characterized the progress as slow and modest. Declines in inventory levels were reported in Boston, New York, Philadelphia, Atlanta, Dallas, and San Francisco; these declining inventories put some upward pressure on prices according to Boston, Atlanta, and Dallas. A reduction in the stock of distressed properties was mentioned in New York, Richmond, and San Francisco. In Philadelphia and Kansas City, the possibility of shadow inventory entering the market remains a concern. In general, outlooks were positive, with continued increases in activity expected, although the projected gains were more modest in Boston, Cleveland, and Kansas City.

Commercial real estate market conditions held steady or improved in nearly all Districts in recent weeks. New York, Philadelphia, Minneapolis, and Kansas City all reported that commercial leasing increased and vacancy rates fell. New York and Kansas City reported increases in office rents as well; Kansas City also cited a rise in commercial construction. Commercial building permits were up significantly from one year ago in portions of the Minneapolis District. Chicago’s report was mixed: office vacancy rates remained high, restraining demand for new office construction, but office leasing demand improved modestly and industrial construction picked up. Atlanta reported rising apartment rents and small gains in office leasing, with weakness in the retail and industrial sectors. Boston reported that office fundamentals were flat on average, with rising rents in portions of Boston proper and muted but steady activity elsewhere in the District. Nonresidential construction picked up in the Boston and Cleveland Districts. Office and industrial real estate markets remained healthy in Dallas. The St. Louis report noted an increase in commercial construction across much of the District and varied reports on leasing across areas within the District. In San Francisco, demand for commercial property was stable while commercial construction was limited. Richmond reported a decline in office leasing volume in Washington, D.C., but some portions of the District recorded increasing sales and construction. Multifamily real estate remained a strong submarket and a key driver of construction in many Districts, including Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, Minneapolis, Dallas, and San Francisco.
Agriculture and Natural Resources

According to District reports, agricultural conditions were mixed largely because of severe drought conditions that affected the Midwest more than the rest of the country. Producers in the Chicago, St. Louis, and Kansas City Districts were all severely affected by the drought, with cotton, soybean, and corn crops particularly damaged. Cotton production in the Dallas District was also badly damaged, while the northern part of the Minneapolis District reported good corn, soybean, and wheat crops, and the San Francisco and Richmond Districts reported strong demand for their healthy cotton crops. Although nearly all agricultural commodity prices rose, higher feed costs led to reduced herd sizes and lower livestock prices in nearly all Districts reporting on livestock. Reports from the Richmond and Kansas City Districts indicated that farmland values have continued to rise, although contacts in the Kansas City District expected them to hold steady for the rest of the year. Farm incomes generally rose or stayed the same in the Minneapolis District.

Oil and gas activity continued to be robust across most Districts. Extraction of natural gas and petroleum remained at high levels in the Dallas and Minneapolis Districts and expanded in the Cleveland and Richmond Districts, partly because of increased demand from electrical utilities. Production increased in Gulf Coast oil refineries in the Atlanta District as a result of closures along the East Coast, while higher demand for crude oil, diesel, and other distillates supported prices. However, natural gas producers in the Cleveland, Richmond, Minneapolis, and Dallas Districts reported a decline in exploration and drilling of new wells on account of high inventories and low prices. Coal demand was unchanged from 2011 in the St. Louis District but was expected to fall below 2011 levels in the Cleveland District due to reduced demand for thermal coal from domestic utilities and metallurgical coal from Europe and Asia. Iron ore, taconite, and sand mines in the Minneapolis District continued to operate at high capacity.

Employment, Wages, and Prices

Most Districts reported that employment was holding steady or growing only slightly. Several Districts including Boston, New York, Philadelphia, and Richmond noted a softening in employment relative to expectations; upcoming layoffs were reported by a defense contractor in the Boston District.
and by firms in sectors such as air transportation, appliances, and business support services in the St Louis District. Almost all Districts indicated that manufacturers were continuing to hire, albeit modestly. Demand has been strongest for skilled manufacturing and engineering positions, as well as for IT services. Contacts in the Cleveland, Richmond, Atlanta, Kansas City, and Dallas Districts all reported some difficulty meeting demand for truck drivers.

Overall, upward wage pressure was reported to be very contained across Districts. The Philadelphia and Chicago Districts both noted that despite little wage pressure, some contacts reported upward pressures for medical benefits. Sources from Boston and Atlanta mentioned that continuing demand was putting some upward pressure on wages for highly-skilled positions in software, engineering, and information technology. The San Francisco District also noted specialized IT positions as an exception to generally limited wage growth. The Dallas District reported upward wage pressure for truck drivers and construction workers, and the Minneapolis District noted wage increases in areas with increased oil drilling.

Most Districts reported that overall prices for finished goods were relatively stable despite somewhat increased input prices. Higher prices for grain and other food commodities were cited by many Districts, primarily due to the drought. The Cleveland District noted increased upward pressure on lumber prices, while contacts in Boston, Philadelphia, and Minneapolis reported higher gasoline prices as a potential concern. Chicago mentioned some pass-through of higher crop prices to wholesale prices, while contacts in the Kansas City and Richmond Districts expected to raise future prices in response to more expensive raw materials.
FIRST DISTRICT – BOSTON

Reports from business contacts in the First District are somewhat mixed. Tourism contacts and some retailers cite strong results, but other merchants are more downbeat. Manufacturers mostly report solid performance, but a couple have seen sales fall compared with a year earlier. Software and IT services firms indicate business is good, but somewhat slower than three months ago, while staffing firms say recent results are below expectations. Commercial real estate conditions are not much changed, with the Boston market said to be stronger than the rest of New England; gradual recovery continues in most residential real estate markets around the region. Business contacts say they are hiring only modestly; prices are generally reported to be stable. Outlooks remain uncertain.

Retail and Tourism

First District retail contacts offer a very mixed take on economic conditions in the region. Demand remains strong for adult clothing, but spending on durable items such as furniture and electronics continues to be lower than earlier in the year. Some companies cite disappointing sales during the last six weeks, while others report some upside surprises. Sales results range from low single-digit declines to high single-digit increases compared with a year earlier. Some contacts say that consumer sentiment has become more negative, while others observe that consumers are “coming back.” Retailers note wholesale prices remain flat so they are holding selling prices steady. Respondents still express uncertainty about the direction of the U.S. economy and say they expect little improvement over the next six to eight months.

The tourism industry continues to see growth. Contacts expect that overall 2012 performance will be strong, but express concern that performance will weaken over the last few months of the year. While a rebound in business travel has fueled 2012 performance to date, weakness in Europe might slow this down. Moreover, rising gas prices could have negative repercussions for leisure travel.

Manufacturing and Related Services

The general manufacturing picture in the First District continues to be mixed, although contacts seem to be slightly more upbeat than earlier this summer. Of 12 contacted firms, only two report lower overall sales than a year earlier: A manufacturer of semiconductors attributes the decline largely to industry-specific cycles and a software company that sells mostly into the defense business says slower sales reflect fears about impending sequestration. All other responding firms report flat or rising sales.

On the employment front, while most contacts say they are hiring, none reports any significant additions. A major defense contractor expects significant layoffs in the coming months but attributes them largely to rationalization of operations in the wake of a merger. A tool manufacturer blames weak demand for a 5 percent headcount reduction but says they will concentrate most of the layoffs in Europe. On the plus side, a luxury goods manufacturer reports that, for the first time since 2008, workers are quitting to take better jobs with other firms. A firm in the chemical industry indicates it is exceptionally profitable but is still hiring only “selectively” to replace outgoing workers and fill specific needs.

Few manufacturers report revising their investment plans in recent months; several note that they have plenty of cash available but don’t yet feel confident or see the need for additional capital spending. Several firms mention that merger and acquisition activity is heating up. Some say they hope to pick up
bargains but others say that prices are too high. A contact in the chemical industry says that he has done due diligence on several potential targets and each time he was outbid. A respondent in the semiconductor industry reports that they were the target of acquisition interest and a medical device supplier was recently acquired by Japanese firm.

Contacts say the pricing picture is much more benign than it has been in recent years. A dairy business is the only respondent complaining of high input prices, which are specifically related to the drought in the Midwest. A contact in the chemical business reports that pricing of inputs to his processes is exceptionally good, which he attributes to weakness in China, Brazil, and India.

Few manufacturing contacts have significantly revised their outlooks. The main concerns remain the so-called “fiscal cliff” and the situation in Europe. Europe does not seem to be as much of an issue as it has been in recent cycles, however, with only four contacts specifically mentioning it and only one identifying it as a major problem. Two respondents independently note that firms are paying bills on time, which they say is a good sign about the state of the economy.

**Software and Information Technology Services**

New England software and information technology services contacts report flat to favorable results in the second quarter of 2012, with year-over-year revenue increases generally between 5 percent and 10 percent. Contacts report strong demand in the banking and medical sectors as well as some new activity in the automotive, telecommunications, and manufacturing sectors. However, these upticks in demand are, for many contacts, tempered by the strong dollar and economic uncertainties, particularly in Europe, which are having an increasingly negative effect on revenues. Indeed, one contact reports that revenues from Europe fell more than 50 percent over the four quarters ended in Q2, as many clients delayed execution of big license agreements. Most respondents continue to add to their headcounts, although a few have slowed the rate at which they are hiring. Capital and technology spending and selling prices have gone largely unchanged since February.

The outlook among software and IT services contacts is not appreciably different from that of three months ago. Most are cautiously optimistic and expect current growth rates to continue into 2013.

**Staffing Services**

New England staffing firms generally report lighter-than-expected volumes through mid-August, with most contacts characterizing business as “slow” or “flat.” The May-to-August dip reportedly reflects a softening of demand for office and clerical assistants and light industrial workers. Nevertheless, year-over-year revenue changes in the second quarter remained largely positive, bolstered by steady demand from the engineering, legal, and IT sectors. The number of permanent and temporary-to-permanent placements continues to grow slowly, with one contact noting that clients are “definitely more willing to commit.” Labor supply has gone largely unchanged since May. Contacts continue to have difficulty finding candidates with high-end skill sets such as mechanical and electrical engineers, software developers, and IT personnel; two contacts report that this shortage of qualified labor is putting upward pressure on pay rates and recruiting costs. Looking forward, staffing contacts are slightly less upbeat than they were 3 months ago. Most expect only modest growth until 2013.
Commercial Real Estate

Commercial real estate fundamentals held roughly steady in recent weeks across the First District. Boston continues to enjoy strong leasing demand in pockets of the city and comparatively slow but steady activity in the Financial District. Leasing activity remains light in Hartford, where the retail sector is seen as a weak point. Activity in Providence is mixed across sectors and year-to-date has fallen short of expectations as a result of vacancy shocks. In Portland, office leasing activity is up from earlier in the year, but rents have stayed roughly flat. Across the District, a few contacts note that traditional downtown tenant types, such as law firms and large financial firms, continue to reduce square footage of office space per worker. These reductions are viewed as structural and suggest that future employment growth in professional services may lead to less absorption than previous norms of office space would imply.

Investor interest in Greater Boston commercial real estate remains high, especially for multifamily rental properties, and interest rate spreads are lower than a year earlier for comparable deals. Apartment construction extended its recent boom in the city and some large build-to-suit office projects have broken ground in recent months. One Boston-based bank lender notes an increase in small-scale (under $10M) loan demand in recent months in the office and retail sectors. Outside of Boston, construction and investment sales activity remain limited. A few contacts remark that political uncertainty is putting a damper on business sentiment. In particular, the threat of tax hikes (at all levels of government) is seen as a possible restraint on economic activity in the coming months. By contrast, no contacts cite significant upside risks to growth in the commercial property sector, although Boston is expected to remain a magnet for investors.

Residential Real Estate

Sales of single-family homes and condominiums continued to grow year-over-year in June and July throughout most of the First District. However, in Connecticut, June sales increased marginally in the single-family home market and declined year-over-year in the condo market, but the latest reports for July suggest more substantial increases in Connecticut home sales. Similar to previous reports, contacts cite low interest rates and prices, in addition to pent-up demand, as significant factors in improving sales activity. According to a contact in Greater Boston, rising residential rents continue to spur interest in home ownership. Reports for July suggest the median sales price of homes rose in five of the six New England states; the exception was Rhode Island, where prices continue to decline. Contacts outside of Rhode Island cite declining inventory as the cause for modest price appreciation. Several contacts in areas with low inventory levels note some potential sellers are waiting for their homes to appreciate in value before listing them. Falling inventories in Greater Boston have prompted concern among local real estate professionals that potential homebuyers will be discouraged by an insufficient variety of homes.

Consecutive months of year-over-year growth in sales have made contacts feel more confident about recovery in the housing market. In areas where inventory levels have been high for the past few years, concerns have been calmed by declining inventory and increasing home prices. Most contacts predict year-over-year growth in sales, albeit at a slower pace than recently, and anticipate modest increases in the median sale price of homes in coming months.
SECOND DISTRICT--NEW YORK

The Second District’s economy has continued to expand at a modest pace since the last report. Despite some pickup in commodity price pressures, prices of finished goods and services have generally been stable. There have been scattered signs of softening in the labor market: while manufacturers continue to add workers, firms in other industries have scaled back hiring. A growing number of contacts in both manufacturing and other sectors report some softening in business conditions. Retailers, however, report generally favorable results: auto dealers note that sales remain fairly strong, and non-auto retailers report some recent improvement. Tourism activity has remained strong. Residential real estate markets have shown signs of improvement, and Manhattan’s office market picked up slightly. Finally, bankers report increased loan demand, no change in credit standards, and further declines in delinquency rates.

Consumer Spending

Retailers report that sales activity has firmed somewhat since the last report. Two major retail chains report that sales in the region were on plan in July and ahead of plan in early August. Similarly a major retail mall in upstate New York reports some firming in sales, as well as shopper traffic, in July and early August, following lackluster business in May and June. Retail prices continue to be described as steady—including apparel prices, which had previously been expected to drift down with the retreat in cotton prices earlier this year. Stores in New York City have performed on par or modestly better than those in the rest of the region. Inventories are generally said to be at or slightly above desired levels.

Auto dealers in upstate New York continue to report strong sales. New vehicle sales are characterized as particularly robust—up 14 percent from a year earlier—in the Rochester area. Buffalo-area dealers are seeing gains of about 7 percent. Sales of used cars and business at dealers’ service departments are also described as fairly robust. Wholesale and retail credit conditions remain favorable.
Tourism activity has been mixed but generally strong since the last report. Hotels occupancy rates in the Albany and Buffalo areas have climbed and are well ahead of year-earlier levels. New York City hotels indicate that revenues per room were up roughly 6 percent from a year ago in June but up by a more modest 2 percent in July, as growth in room rates slowed and occupancy rates leveled off at close to 90 percent. With a 2-3 percent increase in the total number of hotel rooms in the city, this suggests continued fairly brisk growth in tourism activity. Attendance at Broadway theatres picked up in July and remained robust in early August, running 4-5 percent ahead of a year earlier, while revenue was up roughly 10 percent, reflecting higher ticket prices.

Construction and Real Estate

Housing markets across the District have shown further signs of modest improvement since the last report. The housing market in the Buffalo area continued to show strength through mid-July, though activity has dropped off in recent weeks—to a greater extent than the seasonal norm. Northern New Jersey’s housing market has bottomed and is showing scattered signs of improvement, according to an industry expert. This contact also maintains that internal market fundamentals are favorable: low and declining inventories, pent up demand, high affordability and a steady reduction in the foreclosure pipeline. Manhattan’s co-op and condo market has been fairly active since mid-year, relative to the normal seasonal pattern of slowing. In particular, there has been strong activity at the very high end (for “trophy properties”) and also for entry-level apartments, driven in part by low mortgage rates. There has been more significant improvement reported in Brooklyn and especially in Queens, where an inventory glut has evaporated surprisingly quickly, according to one contact. New York City apartment rents have continued to rise across all segments, and Albany’s rental market has strengthened noticeably, with rents running 7 percent higher than a year ago.

Manhattan’s office market strengthened somewhat in July, as leasing activity picked up and vacancy rates edged down. Asking rents for Class A office space rose modestly and continued to run more than 10 percent ahead of a year earlier. A real estate contact also reports that retailers have
started leasing more ground-floor space in apartment buildings that have recently reached full occupancy.

**Other Business Activity**

Businesses across the District indicate some softening in general conditions since the last report. A rising number of contacts in both manufacturing and other sectors indicate a recent pullback in business activity. While some pickup in input price pressures has been noted in recent weeks and further increases are anticipated in the months ahead, most report steady selling prices.

Labor market conditions across the District have been mixed, but somewhat weaker, on balance, since the last report. While manufacturers report that they continue to add workers, on net, firms in other sectors indicate that they have cut back on hiring. Moreover, both manufacturers and non-manufacturing firms recently scaled back their near term hiring plans. Separately, a major New York City employment agency specializing in office jobs reports that hiring activity was even more sluggish in July and early August than is usual for this time of year. A contact in the securities industry reports that there has been neither any significant increase in layoffs nor much hiring.

**Financial Developments**

Small- to medium-sized banks in the District report a noticeable pickup in overall loan demand. Particularly widespread increases in demand were reported for both residential and commercial mortgage loans, while demand for consumer loans was little changed. As was the case in the last report, demand for commercial & industrial loans decreased. Bankers also indicate steady demand for refinancing. Virtually all contacts report no change in credit standards across all loan categories. Respondents indicate continued decreases in spreads of loan rates over costs of funds for all loan categories—particularly commercial & industrial loans and commercial mortgages. Respondents also note continued declines in the average deposit rate. Finally, bankers report declining delinquency rates, particularly on commercial & industrial loans and residential mortgages.
Aggregate business activity in the Third District has continued to grow slowly since the previous Beige Book, although the pace of growth has shifted in a few sectors. Manufacturing activity declined further, but the rate of decline is tempering. Retail sales have grown somewhat faster than was the case at the time of the last Beige Book, while auto sales have continued to increase at a consistent pace. Lending volumes at Third District banks have continued to grow steadily, and credit quality has continued to improve since the last Beige Book. Demand for new home construction grew at a slightly faster pace than during the previous Beige Book period, and brokers report steady growth in sales of existing homes. Commercial real estate contacts report more widespread growth, but overall demand remains modest. On average, service-sector firms report more flattening of growth. Price pressures have changed little in most sectors since the last Beige Book.

The overall outlook appears slightly less optimistic relative to the views expressed in the last Beige Book, as contacts expressed uncertainty about the presidential election and the fiscal policy decisions to follow. Expectations among manufacturers, while still positive, have fallen further for overall activity, anticipated hiring, and capital spending plans over the next six months. Retailers, auto dealers, financial firms, and other service-sector firms remain positive about the near-term outlook but are increasingly cautious due to their customers’ rising uncertainty. Real estate firms remain slightly more optimistic with broader participation.

**Manufacturing.** Since the last Beige Book, Third District manufacturers have continued to report overall declines in shipments and new orders; however, the weak demand was less widespread. Makers of lumber and wood products; stone, clay, and glass products; and fabricated metal products have reported gains – some seasonal – since the last Beige Book. Lower activity was reported by makers of food products, primary metals, industrial machinery, electronic equipment, and instruments. Contacts report that many customers are delaying purchases due to uncertainty stemming from the European crisis and domestic fiscal policy.

Optimism among Third District manufacturers that business conditions will improve or stay the same during the next six months remains widespread, though slightly less pervasive than reported in the last Beige Book. Among the major sectors cited above, contacts at firms in the food and lumber industries expect some growth, while contacts at fabricated metals and industrial machinery firms expect some decline. Other major sectors expect no significant change over the next six months. Firms have slightly lowered their overall expectations of future
capital spending and future hiring since the last Beige Book. Contacts mentioned ongoing demand for autos, power generation utilities, and Marcellus shale gas as sources of growth and optimism.

**Retail.** Third District retailers reported a pickup in year-over-year sales for July compared with June. In early August, a retail outlet operator reported stronger sales but softer traffic counts. One contact noted that Olympic viewership numbers were very strong and may have dampened traffic. Another contact relayed the theory that the pervasive negative political advertising will dampen sales until after the election by displacing product ads and by creating a negative sales climate. According to some contacts, children’s clothing is typically the last retail category to experience declining sales in a downturn. Sales of children’s clothing did not improve in July after a surprising year-over-year decline in June. Despite these various headwinds, retail contacts remain cautiously optimistic.

Auto sales remained moderate in Pennsylvania in July as in June, while New Jersey dealers tended to report a repeat of their strong June sales in July and early August. Strong demand and lean inventories are helping to support dealer profits despite weak demand for dealer services, parts, and repairs. The longer-term outlook for sales remains positive. Contacts point out that the average age of cars has risen to 11 years, generating strong pent-up demand. However, dealers remain concerned that rising consumer uncertainty will dampen sales for the second half of the year.

**Finance.** Contacts from the Third District’s financial sector have reported ongoing growth since the previous Beige Book. Larger lenders reported loan growth in mortgages, personal loans, small business loans, and C&I loans. Smaller lenders continue to report increases primarily as gains in market share in various lending segments from other banks – large and small. Several small lenders reported increased activity in mortgages and home refinancings. Most contacts report that the financial health of households, businesses, and financial institutions continues to improve. Although the overall outlook among lenders was positive, there is an expectation of tempered growth until after the election, and there are concerns about the impacts of the fiscal decisions that will follow.

**Real Estate and Construction.** Residential builders reported a modest increase in sales and a stronger increase in traffic – an improvement since the last Beige Book – as they near the end of their primary sales season. Large builders are shifting their portfolios toward more multifamily products and more urban locations. Some small builders are shifting into home
renovation work. Residential brokers reported continued improvement in the sales of existing homes through July. Inventory levels are also falling. As the traditional sales season draws to a close, an anticipated surge of listings from the shadow inventory is not expected until spring 2013, assuming existing home sales remain relatively strong. Builders and brokers share a cautiously optimistic outlook.

Overall, nonresidential real estate activity has continued to grow slowly since the last Beige Book. As Center City Philadelphia attracts more apartments and condos – new construction and conversions – the remaining supply of office and retail space has tightened somewhat. Moreover, the increased population is attracting the interest of outside retailers. Contacts also indicated some increased interest in commercial properties in southern New Jersey. The overall outlook for nonresidential real estate remains one of slow growth, but it has solidified and broadened throughout the Third District since the last Beige Book.

Services. Third District service-sector firms have reported little to no growth since the last Beige Book. Several contacts reported that orders and activity have flattened out. Logistics firms and carriers reported a relatively flat start to the traditional “freight season,” which should have ramped up in June. One contact reported that reduced crop yields from widespread drought-stricken areas have generated an excess supply of drivers and trucks, which may have siphoned normal business from other firms. Staffing firms report no net new orders. One large firm that had been extending temp contracts has begun letting them expire. Hospitals report some growth, which may reflect demand for elective procedures that were deferred during the recession. Additional growth may reflect expansions that garner greater market share. Advertising is a rare bright spot. Revenue from the Olympics and election-year advertising has surpassed expectations, on top of a positive underlying trend. Overall, service-sector firms’ positive outlook for growth over the next six months has been somewhat tempered.

Prices and Wages. Price levels changed little overall, although gas prices have risen a little since the previous Beige Book. Cost factors have risen slightly among manufacturing firms since the last Beige Book. One manufacturer reported that the drought and heat conditions have contributed to relatively lower diesel prices and to higher peak energy prices, respectively. Homebuilders and retailers continue to report tight margins but little additional escalation of the prices that they face. Contacts from all sectors report little or no wage pressures, other than for medical benefits. Many contacts report stabilized house prices for lower-cost homes. Now, some contacts report that the prices of homes in a few affluent areas are beginning to stabilize as well.
FOURTH DISTRICT – CLEVELAND

The economy in the Fourth District grew at a modest pace since our last report. On balance, manufacturing output moved slightly lower, while residential and nonresidential construction picked up. Retailers saw a modest rise in sales during July, and motor vehicle purchases held steady. Natural gas producers increased production, though the demand for coal has softened. The slowdown in freight transport volume, which began in the second quarter, has leveled off. And the demand for business credit showed a modest increase.

Little net hiring was reported across industry sectors. Staffing-firm representatives said that the number of job openings has declined during the past six weeks. Open positions were found primarily in engineering, healthcare, and manufacturing. Wage pressures are contained. Input prices were generally stable, although concerns exist about the recent rise in agricultural commodity prices.

Manufacturing. Representatives from District factories reported that new orders and production were flat or down slightly during the past six weeks, with inventories showing a slight uptick. Relative to year-ago levels, output was mainly higher. The outlook by manufacturers was mixed. While many contacts are less certain about growth prospects than they had been a few months earlier, others believe that the abundance of lower-priced energy, especially natural gas, will boost manufacturing activity in the District. A weakening in shipping volume by steel producers and service centers was attributed to seasonal factors, rising imports, and uncertainty. Demand for steel from the energy sector remained solid, while demand from the transportation sector softened. Most of our steel contacts do not expect market conditions to change appreciably in the upcoming months. Steel producers reported lowering their inventories. District auto production showed a substantial decline in July on a month-over-month basis, due to normal seasonal retooling for model changeovers. Compared to a year ago, production figures were unchanged for domestic producers, while showing a sizeable increase for foreign nameplates. The latter is attributable to the abatement of supply chain issues.

Many of our contacts reported reduced capacity utilization rates, which they attributed to weakening demand. Capital spending remains on track; however, some respondents intend to cut back outlays during the upcoming months. Raw material prices were either stable or declined. Several manufacturers and steel producers reported reducing their prices to match the lower material prices. Little change in payrolls was noted, although attracting skilled workers remains difficult. Wage pressures are contained.

Real Estate. Reports from home-builders on single-family housing starts during July were mixed, although all of our contacts said that activity had improved compared to a year ago. Sales contracts were in all price-point categories. Homebuilders anticipate only a modest increase in the construction of single-family homes in the near term; however, opportunities for
rehabilitating old buildings into apartments and constructing new apartments and special-needs housing are viewed as strong. Selling prices of new single-family homes were up slightly during the past six months, and rents increased in the low to mid-single digits. The volatility seen in building material prices over the past five months is beginning to subside, although there is still upward pressure on lumber prices. In the eastern third of the District, existing home sales (number of units, average sales price, and volume) showed a modest to moderate increase year-to-date relative to the same period in 2011. Similar results were seen in the southwest region of the District.

Nonresidential contractors described current business conditions as improving and better when compared to a year ago. However, construction activity for small to medium-size builders is still substantially below pre-recession levels, and profit margins are tight. Project work is broad based, driven by industrial (manufacturing and distribution), education, and healthcare clients and multi-family housing. The short-term outlook is fairly positive, but builders are concerned about the domestic political climate, events in Europe, and potential defense cutbacks. Building material prices were stable. Even with the pickup in work, residential and nonresidential builders are reluctant to hire additional workers. Wage pressures are contained. Some residential and commercial subcontractors have attempted to raise their billing rates but were largely unsuccessful.

**Consumer Spending.** Retailers reported slightly higher sales figures for July relative to results seen in June. However, several reports indicated that consumers, including those in higher-income brackets, are becoming more cautious when buying and are looking for value. One executive commented that retailers are pushing back orders for the upcoming holiday season. Retailers anticipate modest growth at best through the end of the third quarter. Vendor prices were fairly stable, and little change was noted in store prices. There is growing concern about the rise in agricultural commodity prices and the resulting impact on the cost of food products. Inventories continued to rise modestly, but they were described as manageable. Capital spending for the year remains on target, with little change anticipated during the next 12 months. Outlays are mainly for new store construction and technology upgrades. No hiring is expected, other than at new stores, and wage pressures are contained.

Little change was seen in the number of new-vehicle purchases during June and July when compared with the same time period a year ago. Dealers reported that sales of fuel-efficient vehicles and SUVs are doing particularly well. New-vehicle inventories are on the light side, which was attributed in part to model changeovers and tight control by manufacturers. The outlook by dealers for the remainder of 2012 is mixed, although none of our contacts are expecting a substantial drop-off. Purchases of used vehicles improved slightly during July relative to June levels. Capital spending is limited to OEM-mandated remodeling and image
programs. Hiring for sales and service positions remains at a very slow pace. Dealers have become more efficient at managing labor needs since prior to the recession resulting in leaner payrolls.

**Banking.** Bankers reported a modest increase in the demand for business credit, mainly for refinancings and acquisitions. A few contacts cited rising demand for industrial loans and financing multifamily housing developments. Little change in consumer credit was observed. Auto lending remains the bright spot on the consumer side, although a few bankers observed some softening since our last report. In the residential mortgage market, demand was described as stable to very strong, with a high percentage of applicants looking to refinance. Several bankers expressed concern about the low interest rate environment and compliance costs related to new regulations and their effect on profitability. We heard a few reports about a moderate loosening of lending guidelines. Delinquencies were steady or improved. Core deposits rose. Bankers project little change in payrolls for the remainder of this year.

**Energy.** Conventional oil and natural gas production increased since our last report, with higher production expected to continue in the upcoming months. Some of the increase was attributed to rising demand from electric utilities. Low wellhead prices for natural gas were cited as a reason for a decline in drilling conventional wells. Additional drilling rigs are being moved to Ohio from Pennsylvania to take advantage of the higher-priced wet gas found in the Utica shale. Coal production this year is expected to fall below 2011 levels due to reduced demand for thermal coal from domestic utilities and slowing markets for metallurgical coal in Europe and Asia. Spot prices for steam coal have increased slightly, while prices for export metallurgical coal declined further. Production equipment and materials prices were flat in most categories, and capital outlays remain at projected levels. Moderate layoffs were announced by several coal producers, and conventional oil and gas companies have trimmed back their payrolls.

**Transportation.** Most reports on freight volume indicated that the slowdown which began mid way through the second quarter has stabilized or started to turn around. The outlook for the remainder of 2012 remains positive, but growth is not expected to be as strong as had been forecasted at the beginning of the year. Apart from fluctuating diesel prices, costs associated with truck maintenance held steady. Some carriers are maintaining their fuel surcharges and successfully negotiated rate increases when contracts came up for renewal. Capital spending for 2012 remained on plan. Outlays are allocated for the replacement of aging units and adding capacity. A few executives reported that rising prices for new trucks combined with difficulty in obtaining credit is limiting growth opportunities, especially for small carriers. Driver recruitment remains difficult, resulting in some wage pressure.
FIFTH DISTRICT–RICHMOND

Overview. Fifth District economic activity improved somewhat in most sectors since our last report, although manufacturing and employment weakened. Retail sales improved, and non-retail services providers reported a moderate increase in demand. Tourism contacts generally indicated that summer business was strong, and they anticipated a busy autumn season. Widespread precipitation in July and August brought relief from drought conditions, boosting expected crop yields. Residential real estate activity inched up, while commercial real estate reports were mixed. Lending activity also varied, and most mortgage lending was for refinancing. Manufacturing activity softened as orders declined. Weaker District hiring was led by a slowdown in requests for temp workers, although demand for highly skilled employees persisted. Price changes generally slowed in both the manufacturing and services sectors, with the exception of a small uptick in retail.

Manufacturing. District manufacturing activity continued to decline since our last report. A manufacturer reported that demand fell sharply for heating equipment components, with domestic and European customers both reducing their orders. An auto supplier also reported a significant drop in new orders in the past two months. Another auto parts manufacturer stated that earlier in the year, demand for his components was growing, but now orders were "treading water." He added that inventories were rising and he expected to cut production. A food manufacturer reported that power outages from recent storms resulted in a one-week shutdown, and production did not return to normal for over three weeks. According to our latest manufacturing survey, growth in raw materials prices slowed over the past month, while finished goods prices edged downward.

Retail. Retailers reported improved sales since our last report. Merchants in several states had a successful "tax free weekend" in early August. In addition, some department store contacts said they were able to clear inventories of patio furniture and other seasonal items. Several jewelry retailers also reported increased sales. Record heat this summer helped to push air conditioner sales, with one big-box store depleting its entire inventory. An auto industry contact reported that District sales grew at a somewhat slower pace in recent weeks, although demand remained especially strong for mid-size vehicles. Used cars remained in short supply, putting upward pressure on prices and improving trade-in values. A number of apparel and furniture contacts noted that inventories for the upcoming holiday shopping season will be kept tight, since they expect to be able to easily reorder as needed. Grocery executives expected price increases in meat and dairy products, due to rising feed costs caused by drought. The pace of retail price change rose moderately, according to our most recent survey.

Services. Accounts from non-retail services firms were generally positive in recent weeks. An executive at a North Carolina healthcare system reported that demand for services had been steady, adding that there were a few "sparks" from the arrival of new businesses in an otherwise stagnant local
economy. Contacts at healthcare organizations expressed concern about potential Medicare reimbursement cuts that will come with the change to value-based metrics under the new healthcare legislation. Ground freight firms reported solid demand and higher shipping rates. A freight service executive reported that retailers increasingly have moved to an online presence in addition to in-store sales, contributing to growth in direct shipping to customers through internet sales. Technology services continued to be in strong demand, particularly for developing websites, mobile services, and cloud computing. On balance, responses to our recent survey were that price increases at services firms moderated since our last report.

**Finance.** Banking activity was little changed from the weak, but somewhat mixed conditions that prevailed in our last report. Most bankers said that very few new loans were made recently and the number of loans in the pipeline was shrinking. An often-cited exception was mortgage refinancing, as well as business loans that were captured from other banks by offers of better terms. However, several mortgage lenders noted some increase in new home loans, especially in the mid-priced range, and one official reported a modest increase in single-home construction loans. A Maryland banker cited a sharp increase in small business loans, but several other bankers stated that many small business loan applications did not meet lending standards. A lending officer in northern Virginia reported a slowdown in industrial loans due to rising economic uncertainty. A banker in West Virginia noted strength in industrial loans going into the state’s energy sector, although he expected lending to decline after the completion of current mining projects. While margins continued to be squeezed, most bankers described loan quality as stable following several quarters of steady improvement.

**Real Estate.** Residential real estate activity continued to improve since our last report. A Realtor in the Richmond area said that sales were up double digits over last year and pending sales had increased sharply from a year ago. Moreover, his company had seen a marked increase in prices. An agent in the D.C. area also reported strong sales “inside the Beltway.” A Realtor in the Fredericksburg area indicated that sales had increased and traffic was very active for this time of year, noting that the average sales price had risen by about $40,000 over last year. She mentioned that her firm had seen virtually no listings of foreclosed properties in July, and she saw fewer short sales. A West Virginia developer, who specializes in second homes in the mountains, stated that there had been an increase in inquiries and contracts for homes after four years without any sales. Similarly, a contractor reported a solid increase in home sales in the Charleston, South Carolina area, with the average price of new homes sold rising slightly as well.

Commercial real estate activity remained mixed over the last few weeks. A few Realtors pointed to companies that were downsizing their space requirements as a cause for limited new construction and high vacancy rates. An agent in the D.C. area reported a recent drop in office leasing activity by as much as half from year-ago levels. However, several Realtors noted that, due to the lack of office construction, landlords had been offering fewer incentives to capture or retain tenants at existing properties. Retail
leasing activity was mostly described as weak, especially among small, locally owned businesses. A contact in northern Virginia noted weakness in many segments of the market, but notable exceptions included car dealerships, gas stations and doctors’ offices. A North Carolina real estate agent reported that purchasing activity had picked up markedly among his investment clients, which he attributed to national firms being increasingly attracted to the region. A few pockets of improvement in both leasing and construction activity were noted in eastern South Carolina, which has benefited from an expansion in the aerospace industry, and in northern West Virginia, where gains were driven by natural gas drilling.

Labor Markets. Labor market activity weakened since our last report. Contacts at several employment agencies described demand for workers as softening in the past six weeks. In Richmond, several small retailers said that they did not hire summer workers and they were not planning additional hiring for the year-end holiday selling season. One agent noted that demand was slightly below normal for this time of year, but he hoped to see a rebound similar to the one that occurred late last summer. However, a few pockets of strength persisted. For example, most employment agencies continued to report strong demand for highly skilled IT employees, as jobs created by new technologies drove the market for those workers. Additionally, several contacts noted an increase in demand for truck drivers. According to our recent surveys, wages in both the manufacturing and service sectors were growing at a slightly slower pace than a month ago.

Tourism. District resorts reported a very good summer season, with rentals and hotel bookings up from a year ago. Local restaurants and shops have been busy, and a contact on the Outer Banks of North Carolina said that new businesses were opening to serve vacationers. Cruise ships leaving the Port of Baltimore have been fully booked, according to a contact there. In Washington, D.C., a contact observed more tour buses in recent weeks and bigger weekend crowds on the National Mall. However, according to a couple of Baltimore hotel managers, bookings for conferences and leisure stays were mixed. Additionally, a hotel contact in the Virginia Beach area said that bookings were making "no great strides," primarily as a result of government travel cuts. Despite the lack of momentum in government travel, most hoteliers said that they were able to raise rates slightly. Looking ahead to late autumn, executives were optimistic about bookings, as localities planned historical commemorations, music programs, food festivals, marathons, and other social events. In South Carolina, a hotel manager anticipated that a new carrier at a nearby airport would provide solid bookings in the months ahead.

Agriculture. Widespread precipitation since our last report helped revitalize crops and pastureland in many areas of the District. Rain in early August aided late summer peaches in Maryland and West Virginia, and soybeans were responding to improved weather conditions in Virginia. Cotton and peanut growers in the District are also having a great year. In South Carolina, the cantaloupe and watermelon harvest was virtually complete by early August. Results of our recent agricultural credit survey indicated that farmland values were above both the previous quarter and year-ago levels.
SIXTH DISTRICT – ATLANTA

Summary. Reports from Sixth District business contacts indicated that economic activity expanded at a modest pace in July through mid-August. The majority of contacts described their short-term outlook for future business activity as restrained.

Most retailers indicated that sales growth had slowed with the exception of autos, which remained quite positive. Tourism contacts continued to report strong activity in all segments except cruise lines. Residential brokers and builders noted improvement in home sales and construction. New and existing home sales prices were reported to be modestly higher than year-ago levels. Commercial builders continued to note improvement, driven by the multifamily sector. Manufacturers reported a pullback in new orders and production levels. According to banking contacts, loan demand remained low but some improvements were registered in home mortgages, and auto lending was brisk. Hiring activity remained muted across the District. The trend of using temporary workers to fill labor needs continued to be cited by many firms. Some contacts said that they had experienced lower overall input prices, but rising food prices was a concern. Wage pressures remained in check.

Consumer Spending and Tourism. Most contacts in the retail sector reported generally slower sales. Contacts in the restaurant industry in particular were less positive in July. Discount retail operations performed somewhat better than traditional department stores, while luxury goods merchants remained largely positive, although their reports were more mixed than earlier in the year. Sales expectations for most retailers remained conservative. Auto sales continued to grow at a solid pace and dealers anticipated continued strong results.

Hospitality contacts reported strong hotel occupancy and room rates for July through mid-August. Convention bookings showed continued strength. Cruise line results remained below expectations. However, contacts in that sector anticipate stronger business in 2013. Florida contacts noted a drop off in tourism activity from Europe, but that was being offset by the increase in visitors from South and Central America.

Real Estate and Construction. District residential brokers reported that sales were up slightly compared with year-ago levels. Brokers continued to note declining inventories, which has put some upward pressure on home prices in many markets. Contacts indicated that buying interest continued to improve from earlier in the year. The outlook for home sales over the next several months remained positive, with the majority of contacts anticipating modest gains.

Reports from District homebuilders remained positive as well. Most said that recent activity had met or exceeded their expectations. New home sales were up notably from year-
earlier levels and construction exceeded last year’s levels. Most builders reported that new home inventories declined further. Several builders also noted that finished lots were scarce and development of new lots would not be financially feasible until home prices increased significantly. Most builders indicated that new home prices were flat to slightly up compared with a year earlier. The strongest gains were again reported by Florida builders. Homebuilders witnessed strong buyer traffic and the outlook for construction activity and new home sales remained positive.

Apartment sector gains continued to drive improvements in the District’s commercial real estate markets. Occupancy levels were described as high and rental rates rose further. Contacts indicated that the region’s office market continued to make small improvements, while the industrial and retail sectors cited some weakening in demand from earlier in the year. Commercial contractors indicated that the pace of construction improved somewhat from earlier in the year, while backlogs have also risen in many areas. Most anticipated that construction activity will likely mirror last year’s levels through the end of the year. Some contacts suggested that 2012 would be the bottom of the market, with improvements expected next year.

**Manufacturing and Transportation.** Manufacturing contacts noted a contraction in new orders and production levels since the last report. Roughly one quarter of manufacturing contacts still expect production to improve from current levels over the next three-to-six months, but an equal number anticipate additional declines. Half see output levels near current readings. Despite falling non-labor input costs, a slump in new orders is keeping margins thin. Construction-related manufacturing firms cited a bit more optimism since the last report, crediting recent improvements in several housing market indicators.

Trucking contacts indicated that freight demand and capacity remained closely in balance. Regulatory issues, increasing costs, and a tight driver market continue to put pressures on bottom lines. District air cargo contacts cited continued positive growth, however at a slightly slower pace than earlier in the year. Sharp volume declines with Asia and Europe have been offset by increases in other regions. Rail contacts reported continued increases in intermodal shipments, which have helped to moderate declines in car loads of coal and agricultural products. Shipments of construction-related materials continued to be mixed; lumber remained positive, while aggregates and chemicals declined.

**Banking and Finance.** Banking contacts continued to note margin and profit pressures. Competition among banks and credit unions for high-quality loans remained intense, further driving down margins. A few bankers cited positive loan growth, but overall loan demand
remained low. Some contacts noted pockets of improvement in residential real estate lending, driven mostly by refinancing. Contacts also reported robust auto lending. Community banks looked to fee-related services in an effort to become less dependent on the pricing spread between loans and deposits. Some contacts cited increased consumer credit card use.

**Employment and Prices.** Regional employment growth remained very tepid. Few firms reported their intention to add to current staffing levels, but there were only scattered reports of firms planning layoffs. Companies that rely on contracts with the Department of Defense were not yet cutting back on staff or otherwise changing their business plans because the timing and focus of defense spending cutbacks is highly uncertain. Many firms continued to note increased hiring of temporary or contract workers. Several companies have also reported large capital investments which reduced the need for labor. Meanwhile, contacts also continued to note difficulty filling highly skilled positions. Several firms continued to report that weak demand and uncertainty surrounding fiscal and regulatory policy weighed on decision-making processes.

Businesses reported some relief on input prices and little change in wage plans, although some employers noted that they were increasing starting pay for workers with specialty skills. The potential impact of higher food prices was noted by many companies across several sectors. Paired with the recent rise in gasoline prices, higher food costs will have a negative impact on lower and middle-income constituents according to community development contacts. Firms responding to our Business Inflation Expectations survey reported steady unit cost expectations in July. On average, they expect unit costs to rise 1.7 percent over the next 12 months. While similar to June's reading, the number was down slightly from 1.8 percent in May.

**Natural Resources and Agriculture.** Contacts reported a renewed increase in production at Gulf Coast refineries because of recent closures along the East Coast. An increase in demand for crude oil and oil products, along with the Gulf Coast seeing particularly high demand for diesel fuels and other distillates, has helped to support refined product prices.

Recent rains improved conditions in many parts of the District. Compared with the same time last year, prices paid to farmers for soybeans, corn, oranges, beef, hogs, and broilers were up while cotton was down. Although beef prices have increased over the last year, contacts reported that both the drought and high feed prices have resulted in lower prices paid to farmers on a month-over-month basis.
Summary. Economic activity in the Seventh District expanded at a moderate pace in July and early August, with the pace of growth once again slowing from the prior reporting period. Contacts reported heightened concern regarding the risks to the economic outlook, notably the U.S. fiscal situation and weaker growth in Europe and Asia. Business spending increased at a slower pace, while consumer spending growth picked up some. Growth in manufacturing production moderated further, while construction activity continued to slowly increase. Credit conditions were again slightly improved. Smaller anticipated corn and soybean harvests due to the ongoing drought pushed crop prices higher and raised the cost of feeding livestock, with some pass-through to wholesale prices already taking place.

Consumer spending. The pace of growth in consumer spending increased slightly in July and early August due in large part to heavy discounting by retailers to clear inventory space for back-to-school items. Store traffic was similar to last year at this time; however, retail contacts noted that the recent increases in gas prices were leading to less discretionary spending. Sales of summer clothing and other seasonal items remained strong. Sales of big-ticket items such as furniture again were weak, although sales of electronics improved some. Auto sales were little changed from the prior reporting period and dealers reported that inventories were beginning to creep up.

Business spending. Growth in business spending slowed from the prior reporting period. Inventories were generally reported to be at comfortable levels. However, retailers remained cautious in their back-to-school and holiday season ordering and manufacturers also expressed a desire to tightly manage their inventories. Capital expenditures on software and equipment were proceeding as planned, but contacts cited a greater degree of restraint in new spending projects. Labor market conditions were little changed on balance. Hiring remained selective in most industries, with demand comparatively stronger for skilled manufacturing and construction workers, information technology specialists, and engineers. Several manufacturers reported transitioning temporary employees into permanent positions, and a staffing firm reported an increase in demand from the manufacturing sector.

Construction/real estate. Construction activity continued to increase at a slow but steady pace in July and early August. Multi-family construction remained an area of strength, and residential single-family construction increased slightly. Homebuilders noted that credit was still
tight for residential projects, with lenders continuing to require large equity commitments before extending financing. Demand for nonresidential construction also continued to gradually increase. Industrial building and highway projects rose further. Elevated office and retail vacancy rates remained a drag on new commercial construction, but contacts indicated that demand for office space was slowly improving. That said, a commercial real estate broker noted that companies lack the confidence to make long-term real estate commitments, as many continue to negotiate for contracts with opt-out provisions after two to three years into their lease agreements.

**Manufacturing.** Growth in manufacturing production slowed further over the course of July and early August, with contacts expecting this slower rate of growth to persist throughout the second half of the year. In the steel industry, capacity utilization fluctuated some during the reporting period, but was roughly unchanged on balance. Metals manufacturers noted continued volatility in their customers’ orders, as many were closely monitoring their inventory levels. The auto industry continued to be a source of strength for manufacturing. Demand for heavy equipment also remained solid, with rental fleets continuing to expand. Manufacturers of household goods and building materials reported that activity had picked up some, although it remained at low levels. The coal mining industry, however, was a notable exception, as the low price of natural gas has resulted in the substitution of natural gas for coal in electricity production. Exporters noted weaker demand from Europe and Asia, but continued strength from other parts of the world like Mexico.

**Banking/finance.** Credit conditions gradually improved over the reporting period. Credit spreads and volatility moved lower and increased competition led to downward pricing pressure on small business loans. Business loan demand continued to be mostly from small and middle market firms and for the purpose of refinancing existing debt as opposed to financing capital expenditures. Banking contacts reported that many of their customers are waiting to assess the impact of the upcoming election on tax and healthcare policies. Consumer loan demand was steady. Mortgage refinancing continued to increase and contacts noted the greater availability of sub-prime loans for used autos. With overall loan growth flattening out in recent months, a banking industry contact noted that some banks are investing in municipal bonds as a way to increase their earnings.

**Prices/costs.** Cost pressures were mixed in July and early August. Prices fell for a number of commodities but rose for materials like steel and lumber. Gasoline prices moved higher and shipping costs were also noted to have risen. Retailers reported that the spike in agricultural commodity prices resulting from the drought, particularly its impact on higher feed costs, was
already starting to be passed through to wholesale prices. Wage pressures continued to be moderate, although several contacts cited upward pressure on healthcare costs.

**Agriculture.** The drought has substantially reduced expected yields for corn and soybeans, although the impact varied considerably across the District. Scattered rains near the end of the reporting period helped revive soybeans to some degree; however, with the exception of some late-plantings, the precipitation was too late to improve yields for most of the corn crop. Crop insurance and higher prices will partially offset lost revenue. However, some farmers face the prospect of having to buy corn at market prices after selling ahead more than they will likely harvest. Livestock pastures are in poor shape as well, and fields with low corn yields were being chopped for silage to feed livestock. With feed costs high, livestock operations cannot cover their costs of production, and operators have reduced their herds accordingly. Hog and cattle prices were down from the prior reporting period, while dairy prices were up as milk production dipped.
Eighth District - St. Louis

Summary

The economy of the Eighth District has continued to expand at a modest pace since our previous survey. Retail and auto sales in July and early August increased over year-earlier levels. Residential real estate market conditions have continued to improve moderately. However, commercial and industrial real estate conditions have been mixed. Recent reports of planned activity from services firms have been positive. In contrast, reports from manufacturing contacts have been mixed. Reports of lending activity at a sample of large District banks during the second quarter of 2012 were somewhat mixed.

Consumer Spending

Contacts reported that retail sales in July and early August were up slightly, on average, over year-earlier levels. About 42 percent of the retailers reported increases in sales, while 33 percent saw decreases and 25 percent saw no changes. Half of the retailers noted that sales levels met their expectations and half noted that sales were below expectations. About 13 percent of the retailers noted that their inventories were too high, while 8 percent reported that their inventories were too low. The sales outlook through the fall was generally optimistic: 70 percent of the retailers expect sales to increase over 2011 levels, 17 percent expect sales to decrease, and 13 percent expect sales to be similar to last year's sales.

Car dealers in the District reported that sales in July and early August were up, on average, compared with last year's sales. About 67 percent of the car dealers surveyed saw increases in sales, while 8 percent saw decreases and 25 percent saw no changes. A third of the car dealers surveyed noted that new car sales had increased relative to used car sales, while 13 percent reported the opposite. Roughly 29 percent of contacts reported an increase in sales of low-end vehicles relative to high-end vehicles, while about 13 percent reported the opposite. Twenty-five percent of the car dealers surveyed reported that their inventories were too low, while 17 percent reported that their inventories were too high. The sales outlook for September and October was generally optimistic: 67 percent of the car dealers expect sales to increase
over 2011 levels, 16 percent expect sales to decrease, and 17 percent expect sales to be similar to last year's sales.

**Manufacturing and Other Business Activity**

Reports of plans for manufacturing activity have been mixed since our previous report. Several manufacturers reported plans to expand operations and hire new workers, while fewer manufacturers reported plans to lay off workers. However, the reported plans for layoffs usually involved a greater number of workers relative to the reported hiring plans. Firms in automobile, medical technology products, carbon and graphite products, air purification equipment, electrical equipment, automobile parts, metal can, nanotechnology, lifting equipment, and industrial machinery manufacturing reported plans to expand operations and hire new workers. In contrast, firms in air transportation, chemical, appliance, wind turbine, and aluminum manufacturing reported plans to lay off workers and close plants.

Reports of planned activity in the District’s service sector have been positive since our previous report. Firms in financial, medical, information technology, business support, transportation, home healthcare, and environmental consulting services reported plans to open new facilities, expand operations, and hire new employees. In contrast, firms in information and education services reported plans to reduce operations and decrease employment.

**Real Estate and Construction**

Home sales increased throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2011, June 2012 year-to-date home sales were up 13 percent in Louisville, 7 percent in Little Rock, 10 percent in Memphis, and 16 percent in St. Louis. Residential construction increased in the majority of the District. June 2012 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2011. Permits increased 42 percent in Louisville, 14 percent in Little Rock, 46 percent in Memphis, and 23 percent in St. Louis.

Commercial and industrial real estate conditions were mixed throughout most of the District. A contact in northeast Arkansas reported that except for Jonesboro and Paragould, overall commercial real estate activity remains weak in the region. A contact in Louisville noted that compared with the first five
months of 2012, the growth of office leasing activity has slowed. A contact in St. Louis reported moderate improvement in office real estate activity and strong demand in the industrial real estate market. Commercial and industrial construction activity improved throughout most of the District. Contacts reported several commercial construction projects in Jonesboro, Arkansas, and in Bowling Green, Kentucky, while contacts in Louisville noted new speculative construction plans in nearby Jeffersonville, Indiana.

**Banking and Finance**

A survey of senior loan officers at a sample of large District banks indicated moderate changes in overall lending activity in the second quarter of 2012 compared with the first quarter of 2012. During this period, credit standards for commercial and industrial loans remained largely unchanged, while demand for such loans increased moderately. Credit standards for commercial real estate loans remained generally unchanged, while demand ranged from moderately weaker to moderately stronger. Credit standards for prime residential mortgage loans also remained generally unchanged, while demand ranged from unchanged to moderately stronger. Credit standards for consumer loans ranged from basically unchanged to somewhat eased, while demand was moderately stronger, especially for auto loans.

**Agriculture and Natural Resources**

Severe drought conditions have caused downgrades to forecasted crop production. Annual 2012 production of cotton, soybean, and corn in the District states is expected to fall from 2011 levels by 12 percent, 18 percent, and 24 percent, respectively. In contrast, annual production of rice and sorghum in the District states is expected to increase by at least 12 percent. The fraction of all crops rated in fair or better condition has fallen in all District states since the previous report. Similarly, the fraction of pasture rated in fair or better condition declined in all District states. The District states’ year-to-date coal production for the end of July was 3.4 percent higher compared with the same period last year. Meanwhile, the District states’ coal production for July 2012 was approximately on par with July 2011.
NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew at a modest pace since the last report. Increased activity was noted in consumer spending, tourism, professional services, construction and real estate, while activity slowed slightly in the manufacturing and energy sectors. Agriculture was mixed, while mining was steady at high levels. Overall labor market conditions were steady since the last report, and wage increases were modest. Prices were relatively stable.

Consumer Spending and Tourism

Consumer spending grew since the last report. Same-store sales at a Minnesota-based retailer increased 3 percent in July compared with a year ago; a company representative noted that back-to-school shopping activity has been positive. July same-store sales at a Montana mall increased slightly compared with a year ago. Recent same-store sales at a Minnesota-based restaurant chain were up about 7 percent compared with a year ago. New car and light truck registrations in Minnesota were more than 10 percent higher recently compared with last year. However, a higher-end retailer announced plans to close a Minnesota store next year.

Summer tourism activity increased from last year. Fishing license sales and visits to campgrounds and outdoor state parks and recreation areas in South Dakota were on a record pace. A resort in northwestern Wisconsin reported solid bookings. Tourism activity in the Upper Peninsula of Michigan was up 10 percent to 20 percent. Visits to Glacier National Park and Yellowstone National Park increased 20 percent and 10 percent, respectively. Activity at several other Montana tourism attractions was also tracking ahead of last year. Meanwhile, strong attendance levels were reported at the North Dakota State Fair in late July.

Construction and Real Estate

Commercial construction activity increased since the last report. The value of commercial building permits in the Billings, Mont., area in July more than doubled from the same period last year. Commercial permits in the Sioux Falls, S.D., area more than doubled in value in July from a year earlier. New industrial and warehouse building projects were in progress in the Minneapolis area. Residential construction increased from a year ago. The value of residential building permits in the Sioux Falls area in July was up 39 percent from the same period last year. Residential permits increased in value and number in the Minneapolis-St. Paul area in July; both single-family and multifamily permits increased. Several counties in Montana reported large increases in home building in 2012 compared
with 2011, and the value of residential permits issued in July more than doubled in Billings.

Commercial real estate markets continued to expand. Vacancy rates for Minneapolis office and industrial properties declined over the past year and were expected to decline further, according to a real estate consulting firm. Several large transactions were announced since the last report. Residential real estate market activity was brisk. Home sales in early August were up 20 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 30 percent. In the Sioux Falls area, July home sales were up 29 percent, inventory was down 14 percent and the median sales price rose 6 percent relative to a year earlier.

Services
Activity at professional business services firms grew somewhat since the last report. According to a mid-August Minneapolis Fed ad hoc survey, District professional business services firms noted gains in revenue and profits over the past three months and expect this to continue over the next three months.

Manufacturing
Manufacturing activity slowed. Surprisingly, a July survey of purchasing managers by Creighton University (Omaha, Neb.) showed a decrease in manufacturing activity in Minnesota and South Dakota for the first time in three years; activity in North Dakota increased, but at a slower pace than in recent months. However, most respondents to a Minneapolis Fed ad hoc survey of manufacturers conducted in mid-August had a mildly optimistic outlook for the near term. Several contacts indicated that orders dropped in early July, but have returned to previous levels. A long-planned beef-packing plant in South Dakota was put on hold following reports that it would open soon. A Minnesota manufacturer that makes equipment for the scrap metal industry will reduce production due to a stagnant scrap metal market and a glut of new steel.

Energy and Mining
The energy sector moderated somewhat. Oil and gas exploration in North Dakota decreased in early August, while it increased slightly in Montana; production remained at record levels. Producers of wind-energy components reported slow demand attributed to uncertainty over the renewal of a tax credit. A Minnesota ethanol plant was idled because of high corn input costs. A coal-fired power plant in South Dakota was also shut down. Mining activity remained steady at high levels. Minnesota iron ore mines and taconite
producers continued to operate at high capacity, although some operations were idled for standard annual maintenance. Sand mines in western Wisconsin remained very busy due to strong demand from oil and gas producers.

**Agriculture**

The agriculture sector was mixed. Preliminary results from the Minneapolis Fed’s second-quarter (July) survey of agricultural credit conditions showed that nearly 90 percent of lenders said farm incomes increased or stayed the same in the past three months, with similar results for household and capital spending. While severe drought hit the Midwest, much of the District has been spared relative to other areas. Most of the corn, soybean and spring wheat crops in Minnesota and North Dakota were in good or excellent condition. South Dakota and Wisconsin fared somewhat worse. District cattle producers have been selling more animals because of high feed costs. Margins also tightened for dairy producers. Prices received by farmers in July increased from a year earlier for corn, wheat, soybeans, hay, dry beans, poultry, eggs, cattle and hogs; prices decreased for potatoes and dairy products.

**Employment, Wages and Prices**

Overall labor market conditions were steady since the last report, but tightening continued for some regions and occupations. Bank directors noted that many District companies have not adjusted their hiring plans for the second half of 2012. Manufacturers throughout the District continued to have a number of welding positions open. A business process outsourcing firm recently announced plans to locate up to 400 jobs in Minnesota. A Minnesota manufacturer hired 250 workers over the past seven months. In contrast, a Minnesota food retailer plans to lay off 50 workers, and two North Dakota manufacturers are holding back on hiring plans.

Wage increases were modest, with some exceptions. Wage rates in the oil-drilling area of western North Dakota and eastern Montana continued to climb. A Minnesota manufacturer noted that workers with higher skills were getting some increases in wages, while wages for lower-skilled workers were flat.

Prices were relatively stable. Metals prices were down somewhat since the last report. However, mid-August Minnesota gasoline prices were up about 30 cents per gallon from early July.
The Tenth District economy continued to expand at a moderate pace in July and early August. Retailers and auto dealers reported higher sales and expected increased activity in the months ahead. Manufacturing activity expanded slightly, with additional gains expected over the next six months. Transportation activity grew moderately, while sales in the high-tech services sector declined slightly. Residential and commercial real estate markets continued to improve with increased sales, construction, and prices. Banking contacts reported slightly higher loan demand and improved loan quality. Agricultural conditions deteriorated under extreme drought conditions leading to higher crop prices and strained profit margins for livestock producers. The energy sector held steady as growth in crude oil drilling continued to offset the decrease in drilling for natural gas. Most sectors reported higher input prices, but final goods prices and wage pressures remained stable.

**Consumer Spending.** Consumer spending continued to increase in July and early August and was expected to rise further over the next three months. Retailers reported higher sales, though gains were a bit less than expected. Home furnishings, clothing and back-to-school items sold well, while sales of high-end jewelry were weaker. Auto sales increased sharply as more incentives were offered and access to credit improved slightly. Demand for small and mid-sized crossovers, SUVs and cars was strong, while demand for larger SUVs and minivans remained weak. Most auto dealers expected sales to strengthen further in the months ahead. Restaurant sales increased, and several contacts expected higher menu prices in coming months in response to rising food costs. After strong gains in June, hotel occupancy fell slightly in July and early August, but average room rates continued to rise. In terms of tourism, the number of visitors at local attractions grew slightly, and modest gains were expected in the months ahead.

**Manufacturing and Other Business Activity.** Transportation activity continued to grow moderately, manufacturing activity expanded slightly, and sales at high-tech services firms declined slightly. Transportation activity continued to rise, with an increase in sales and backlog activity. Input prices and prices charged for transportation services increased with higher fuel costs. Capital spending plans at transportation firms remained largely unchanged, with firms continuing to expect a modest increase in capital spending in coming months. Manufacturing
production and hiring rose modestly, though the volume of new orders, volume of shipments, and backlogs declined since the last survey. Manufacturers expected activity to expand in coming months. Sales at high-tech services firms decreased slightly, and capital spending grew modestly. High-tech contacts expected improved sales in the months ahead and a strong rise in capital spending.

**Real Estate and Construction.** Residential and commercial real estate activity continued to improve in July and early August, and construction activity strengthened. Residential home sales and prices rose, and home inventories fell. Contacts reported multiple offers on homes and expected continued housing market improvements in coming months. Homes under $300,000 sold particularly well, while homes priced over $500,000 and condos were slow to sell in some markets. Several contacts reported that a large inventory of homes in foreclosure has been held back and could put downward pressure on prices when the homes come onto the market. Builders reported an increase in housing starts and a rise in new home prices as well as improvement in the traffic of potential buyers. Land prices and the cost of building materials rose during the survey period as demand improved. Commercial real estate conditions also improved. Construction and sales of commercial real estate properties rose, real estate prices and rents increased, and vacancy rates continued to fall. Several commercial real estate contacts expected uncertainty surrounding the presidential election to slow activity until late in the year. Developers reported that access to credit remained unchanged.

**Banking.** In the recent survey period, bankers generally reported slightly stronger loan demand, improving loan quality, and little change in deposits. Overall loan demand improved slightly as most respondents reported stable loan demand for commercial and industrial loans, commercial real estate loans, and consumer installment loans, while demand for residential real estate loans improved. Credit standards remained largely unchanged in all major loan categories, and the majority of respondents reported stable deposits. The majority of bankers reported improved loan quality compared to a year ago, and nearly all banks expected loan quality over the next six months to remain steady or improve.

**Agriculture.** Agricultural conditions deteriorated as crops withered under extreme drought. The majority of the corn and soybean crops were rated in fair or poor condition, cutting production estimates and sending crop prices to record highs. Drought strained profit margins for
livestock producers as feed costs rose and further herd liquidations dampened cattle prices. Escalating production costs were expected to boost farm loan demand in the coming months. Agricultural bankers indicated ample funds were available for farm loans at historically low interest rates. Loan repayment rates were expected to hold near year-ago levels due in large part to crop insurance and higher land lease revenues for mineral rights. While still well above year-ago levels, farmland values rose less rapidly and were expected to hold steady during the rest of the growing season.

**Energy.** District energy activity remained fairly stable at high levels in July and early August. Drilling activity rose as growth in the number of active crude oil rigs offset declines in natural gas drilling. Most contacts expected drilling activity to slow in coming months due to local and national regulatory obstacles and low natural gas prices. Stable demand growth and ample supply of crude oil were expected to limit further increases in crude oil prices in coming months. Contacts expected the slowdown in natural gas drilling to put upward pressure on natural gas prices over the next three months. Shortages were reported for equipment and labor, particularly for oil and natural gas operators and drilling engineers. Several contacts also reported that the drought has affected drilling operations by limiting water availability needed for hydraulic fracturing.

**Wages and Prices.** Finished goods prices remained stable despite an increase in raw material prices, and wage pressures remained low. Manufacturers reported higher raw material prices, and finished goods prices remained flat. However, both raw material prices and finished goods prices were expected to increase over the next six months in the manufacturing sector, especially for food manufacturers. Retail prices increased slightly, and additional price increases were expected to remain modest. Restaurant menu prices remained flat, but many contacts expected to raise prices in the months ahead in response to higher food costs. Builders and construction supply firms also reported higher prices, especially for roofing materials, lumber and concrete. Wage pressures remained subdued, and only a few contacts expected to raise wages more than normal to attract or retain workers. However, many firms continued to report some difficulty filling skilled positions including drivers, technicians, engineers, computer programmers, and sales representatives.
The Eleventh District economy grew at a moderate pace over the past six weeks. Manufacturing activity continued to expand, demand for business services remained solid, and transportation services activity increased. Respondents said retail sales edged up, while automobile sales held steady. The housing and commercial real estate markets remained healthy. Financial firms noted softening loan demand. Energy activity remained robust, and agricultural conditions improved slightly. Employment levels were steady to slightly higher. Wage and price pressures were modest. Most contacts noted that European debt issues and the upcoming national elections added uncertainty to their outlooks.

**Prices**  Most contacts said prices held steady, although some construction-related and vehicle manufacturers noted slight increases, and accounting and staffing firms reported a modest rise in billing rates. Paper product manufacturers and shipping firms noted plans to implement price increases in the near term. Overall, input costs were flat to up during the reporting period. Prices for scrap metal, steel and grains rose. Contacts reported that the rising cost of labor and land prices have increased builders’ costs, and some were raising prices on new homes.

The price of WTI rose from $85 in early July to $94 in mid-August. Natural gas prices remained depressed. The price of diesel and gasoline climbed about 30 cents, and prices of petrochemical products were flat to up over the reporting period.

**Labor Market**  Employment levels edged up or held steady at most responding firms. Staffing firms reported demand softened slightly from high levels and noted rising demand for mortgage refinance specialists, sales professionals and plastic product manufacturing workers. Reports of slight employment increases came from some automobile dealers, construction-related products manufacturers, transportation equipment producers and transportation service firms. A few respondents noted difficulty filling vacant positions because of employment opportunities available in the energy sector, and contacts reported delays in housing starts because of labor shortages. Wage pressures remained minimal, although upward pressure was reported for construction workers, truck drivers and accountants.

**Manufacturing**  Overall demand for construction-related products held steady or edged up since the last report, but outlooks were cautious. A cement producer noted that increased residential construction activity, particularly in South Texas, had improved demand. Fabricated metals producers noted an uptick in orders, largely stemming from both public infrastructure projects and private construction activity such as high rise residential buildings and warehouse facilities. Demand for primary metals was steady over the past six weeks, and expectations were for business to remain flat through year-end.
High-tech manufacturers said orders were flat to slightly up over the reporting period. Contacts reported that conditions in the semiconductor industry were better in the U.S. than in other parts of the world. This is largely because U.S. production centers on logic devices that are experiencing stronger demand than memory devices, which are primarily produced outside of the U.S. Most respondents noted that increased uncertainty will likely be a drag on demand through year-end.

Demand for paper products remained steady, although contacts were uncertain about what will happen over the next few months, particularly with regard to potential tax changes after the November election. Food producers said demand experienced a seasonal increase over the past month, but sales were lower than a year ago. Overall, transportation equipment manufacturers said demand was flat to up over the past six weeks. Demand for aviation equipment held steady at low levels. Outlooks were less optimistic compared with the last report partly due to continued weakness in demand for parts and repair of existing aircraft. A producer of recreational vehicles noted a pickup in sales, and an emergency vehicle manufacturer reported continued strong demand.

Petrochemicals producers reported steady demand. Demand for PVC, tied to residential construction, improved domestically, and exports continued to be a major source of sales. Exports of caustic soda remained strong as U.S. prices are very competitive due to lower electricity costs. Chlorine demand edged up, while demand for propylene weakened. Gulf Coast refiners said operating rates remained high at 90 percent. Robust export demand for gasoline and distillates kept inventories low, and refiners’ margins remained healthy.

**Retail Sales**  Retail sales grew slightly over the reporting period and were up from a year ago. Particular strength was seen in sales of accessories, cosmetics and women’s and children’s apparel. Sales growth in the Eleventh District remained stronger than the nation, on average, according to two large retailers. Retailers expect a seasonal pickup in demand in the fourth quarter, although sales will likely be down from last year.

Automobile sales were mostly flat since the last report, but were up from year ago levels. Inventories were lighter than desired. Contacts said political uncertainty was hampering consumer confidence, and outlooks were cautious.

**Services**  Staffing firms said demand slowed slightly over the past six weeks. Still, activity remained at high levels and business was stronger compared with last year. Outlooks remained positive, yet there was concern among contacts about uncertainty stemming from the upcoming presidential election. Accounting firms noted continued seasonal weakness in overall demand but said activity related to the energy industry remained a bright spot, and outlooks for energy-focused areas were particularly upbeat. Legal firms reported a continued pickup in demand, with sustained strength in intellectual property litigation, energy and real estate-related services.
Reports from transportation service firms suggested a slight increase in activity. Trucking firms said cargo volumes increased over the reporting period, partly due to more oil and gas-related business. Railroads said volumes increased since the last report. Contacts noted shipments of two of the largest categories for rail cargo—grain and coal—declined, while volumes for lumber, petroleum products and motor vehicles increased. Container volumes and small parcel shipments picked up during the reporting period, while air freight activity declined in part due to a slowdown in international cargo volumes.

Airlines noted slight softening in passenger demand in part due to seasonality and a decline in travel to Europe. Demand for travel to Mexico picked up, while travel to Latin America and Asia held steady. Domestic demand remained strong for both leisure and business travel. Contacts expect weaker passenger demand over the next few months but noted it will likely remain near last year’s levels.

**Construction and Real Estate** Housing activity remained strong since the last report. Contacts said sales of new and existing homes continued at a good pace and were well above expectations. Builders noted strong traffic and reported rising backlogs, while realtors said shrinking inventories had led to price gains. Apartment demand remained strong, and contacts noted rising construction activity as investors continue to be attracted to the market. Housing outlooks remain positive.

Office and industrial real estate fundamentals remained healthy over the past six weeks. Leasing activity continued at a good pace and some contacts noted a pick-up in property sales. Outlooks were optimistic but cautious. Since the last report, there were a few signs that investors were becoming less aggressive in pursuing commercial real estate deals, outside of multifamily.

**Financial Services** Overall, loan demand softened somewhat during the reporting period. Corporate lending activity remained weak, while residential real estate loan demand rose strongly. Loan pricing remained competitive and deposits continued to grow. The quality of outstanding loans continued to improve slowly as nonperforming loans declined. Outlooks were positive, but contacts expressed concern about European debt issues, new regulations for community banks and the upcoming national elections.

**Energy** Respondents at energy-related firms said overall activity remained at high levels, with long lead times and growing backlogs. Drilling activity continued to shift from dry natural gas to oil and natural gas liquids. While the shift has not affected overall activity levels, contacts expect a plateau in the growth of rig activity through year-end, in part due to recent weakness in the price of natural gas liquids. Oil-related activity continues to be strong, and contacts expect continued improvement in offshore drilling.

**Agriculture** Drought conditions improved slightly due to scattered rainfall in July. Crops remained mostly in fair to good shape, with the exception of dryland cotton crop in the Texas High Plains region which suffered due to lack of moisture. Overall, crop conditions were much better than a year ago. Drought in the Midwest has caused grain prices to climb sharply, squeezing margins for ranchers by driving up feed costs for livestock.
TWELFTH DISTRICT–SAN FRANCISCO

Summary

Economic activity in the Twelfth District continued to expand at a modest pace during the reporting period of July through mid-August. Price inflation was limited for most final goods and services, and upward wage pressures were quite contained. Sales of retail items rose a bit further on net, and demand for most business and consumer services continued to expand. District manufacturing activity appeared to inch up on balance. Agricultural output expanded, while activity continued to trend up for providers of energy resources. Home demand in the District strengthened a bit further, and demand for commercial real estate was largely stable. Contacts from financial institutions reported that overall loan demand was unchanged or weakened slightly on balance.

Wages and Prices

Price inflation was limited for most final goods and services during the reporting period. Prices increased for some energy items, mainly crude oil, retail gasoline, and electricity, but natural gas prices remained near historic lows. Contacts also noted price increases for assorted food commodities, particularly grains, although meat prices reportedly have leveled off for the time being. For most products and services, vigorous competition among firms and cost-conscious purchasing behavior by consumers kept price inflation in check.

Upward wage pressures were quite limited overall. Wage increases were noted for employees in some manufacturing sectors where wages had been flat for several years; the reported increases were moderate, in the 2 to 3 percent range. Wage gains also remained significant for workers with specialized skills in the application of information technology. Contacts in general reported very limited hiring plans for the balance of the year, suggesting that upward wage pressures will remain muted.

Retail Trade and Services

Retail sales expanded a bit further overall. Respondents in general indicated that sales strengthened somewhat in July compared with softness in May and June. Performance was stronger for discount chains than traditional department stores, particularly for online sales. At grocery stores,
extensive bargain hunting by shoppers caused sales revenues to weaken a bit. The pace of auto sales slowed somewhat compared with the prior reporting period, although it remained significantly above the pace from the same period last year. Used vehicles have been in short supply, raising their trade-in values and helping to spur sales of new vehicles.

Demand for most business and consumer services expanded further. Sales continued to grow for a wide variety of technology services, with expectations for further rapid growth in selected segments, such as cloud computing services. Advertising revenues remained at high levels for radio and television broadcasters in the District, but the slow drift of television production activities away from District locales such as Los Angeles continued. Providers of health-care services noted a drop in the demand for discretionary medical services and a consequent reduction in capacity utilization at medical care facilities. Demand picked up further for restaurants and other food-service providers. Contacts in the District’s travel and tourism sector reported additional gains for business and leisure travel, although the pace of growth has slowed of late in some areas such as Las Vegas.

Manufacturing

District manufacturing activity was mixed but appeared to inch up on balance during the reporting period of July through mid-August. Production activity remained at high levels for makers of commercial aircraft and parts. Demand continued to grow for pharmaceutical manufacturers. Output and sales strengthened a bit further for manufacturers of wood products. By contrast, the slowdown continued for makers of information technology equipment, with sales declines reported for some equipment categories in recent months. Demand for steel was mostly stable at low levels, while sales of processed scrap metal fell, largely as a result of a decline in overseas demand. For petroleum refiners, capacity utilization rates increased somewhat, as growth in export sales for a range of refined products offset weakness in domestic demand for gasoline.

Agriculture and Resource-related Industries

Agricultural producers saw further sales gains, and extraction activity of natural resources used for energy production continued to expand. Orders and sales grew for many crop and livestock products,
and one report indicated that demand for cotton was particularly strong. The persistent drought in parts of
the country has raised grain and feed prices, prompting District cattle ranchers to reduce herd sizes.
Extraction activity for petroleum and natural gas remained at high levels or expanded a bit further on net,
although some producers have been shifting operations away from natural gas in response to continued
high inventories and the consequent low price.

Real Estate and Construction

Home demand in the District continued to improve, while demand for commercial real estate was
largely stable. Although it is still well below its historical average, the sales pace for new and existing
homes picked up further in many areas, and some contacts pointed to pent-up demand that may spur
additional gains. Contacts also reported that the share of foreclosures and short sales in overall home sales
has been declining, and the quality of the inventory of available homes has improved. In some parts of the
District, a shortage of lower-priced homes and rental units has led to an ongoing increase in construction
activity, particularly for multifamily rental projects. Demand for nonresidential space was largely stable
overall, with construction activity largely limited to various public projects and remodeling of commercial
and industrial space.

Financial Institutions

District banking contacts reported that loan demand was unchanged or down slightly on balance
compared with the prior reporting period. Business loan demand appeared to drop a bit, amid growing
reluctance by many firms to commit to expansion plans under current economic conditions. At the same
time, the reports continued to highlight ample liquidity and stiff competition among lenders to provide
credit to well-qualified business loan applicants. Demand for consumer credit remained relatively strong,
reflected primarily in high lending activity for automobile and home purchases.